

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

October 15, 2002

The Capital Projects and Bond Oversight Committee met on Tuesday, October 15, 2002, at 9:00 AM, at Pogue Library on the campus of Murray State University. Representative Jodie Haydon, Chair, called the meeting to order, and the roll was called.

Present were:

Members: Representative Jodie Haydon, Chairman; Senator Robert Leeper, Vice Chairman; Senators Tom Buford and Bob Jackson; and Representative Jim Wayne.

Guests testifying before the committee: Dr. King Alexander and Jace Rabe, Murray State University; Don Elias, City of Murray; Bill Hintze, Governor's Office for Policy and Management; Armond Russ, Glenn Mitchell, and Don Mullis, Finance and Administration Cabinet.

LRC Staff: Mary Lynn Collins, Pat Ingram, Nancy Osborne, and Kevin Mason.

Chairman Haydon opened the meeting by thanking Murray State University (MuSU) President King Alexander for hosting the meeting and reception held the previous night.

Dr. Alexander welcomed the committee to MuSU. He said MuSU is a lighthouse of economic hope in this region, and the state's ability to keep its young people is highly contingent upon the success of the universities in this area. He said the university is not only about students, but also about economic development, a vital objective for MuSU.

Senator Buford made a motion to approve the minutes of the September 17 meeting as submitted. The motion was seconded and passed by voice vote.

Chairman Haydon called on Ms. Mary Lynn Collins, Committee Staff Administrator. Ms. Collins said included in members' folders were: (1) correspondence from Chairman Haydon to the Labor Cabinet Secretary requesting him to determine whether the state prevailing wage law is applicable to the University of Kentucky baseball stadium renovation; and (2) a letter of response from the Labor Cabinet Deputy Secretary indicating they are looking into the matter and will notify the committee of their determination. Other correspondence items included the annual report of bonds outstanding and the semi-annual report of the Asset/Liability Commission from the Office of Financial Management; quarterly construction reports from the Administrative

Office of the Courts, the Finance and Administration Cabinet, Murray State University, University of Kentucky, and University of Louisville; and the Kentucky Lottery Corporation's monthly financial report for August 2002.

Ms. Collins briefly summarized two information items in members' folders: a press release announcing the state's bond rating is being downgraded by Standard and Poor's; and news articles regarding the state's budget situation.

Chairman Haydon said the committee will depart from its usual meeting procedures. He said he reviewed the agenda with staff last week, and decided that it was not necessary to have all of the state agency representatives who normally provide reports to the committee to attend the day's meeting. He said he would ask Ms. Collins to briefly discuss some agency reports, and if members should have questions, the appropriate agency representative will be present at next month's meeting to respond.

Chairman Haydon said the first item of new business was a request submitted by MuSU to use an alternative funding mechanism for the Recreation/Wellness Center, a project included in the Governor's FY 2003 spending plan as a cash-funded project. He called on President Alexander to discuss the project.

Dr. Alexander introduced Mr. Don Elias, City Manager, City of Murray, and explained the proposed wellness center financing. As proposed, the City would issue general obligation bonds not to exceed \$10 million for a term of 30 years. The university and the City would enter into a Memorandum of Agreement whereby the City would transfer the net bond proceeds to the university to hold in a separate construction account for the project, and the university would commit to assess the Student Recreation and Wellness Center fee in amounts sufficient to cover the City's required debt service associated with the issue.

Dr. Alexander said the wellness center is needed to help recruit and retain students. He said there is tremendous economic value as well as educational value to having a campus recreational center since such a facility will help keep students on campus during weekends.

Dr. Alexander said in order to build the facility, the University's Board of Regents approved a student fee (\$3 per credit hour, up to \$36 per semester) at the request of the student body to generate a payment stream for the facility.

Chairman Haydon called on Glenn Mitchell, Deputy Finance and Administration Cabinet Secretary, and Don Mullis, Executive Director, Office of Financial Management, to further discuss this project. Senator Jackson said he appreciated the assistance of the City of Murray to fund this project.

Representative Wayne asked how the title of the land/facility will be treated. Dr. Alexander said the university will retain sole ownership.

Representative Wayne asked how the university will handle a cost overrun on this project. Dr. Alexander said since the students actually voted for the new fee last year, there is approximately \$500,000 available to address any cost overruns. However, he said they are doing everything they can to ensure there will not be a cost overrun.

In response to another question from Representative Wayne, Dr. Alexander said the prevailing wage law will apply to the project. Mr. Mitchell added that the project will be conducted as a normal state-funded bond project.

Representative Wayne congratulated the university for its leadership and for the cooperative spirit between the city and the university.

Senator Leeper asked how this project will affect the state's bonding capacity and bond ratings. Mr. Mitchell said MuSU has committed to the City of Murray that it will adjust its student fee to cover required debt service on the bonds. He said this is a strong statement, because normally state appropriated revenues support the bond issue. He said the rating agencies will view this as "on-credit" because state revenues are being used, but it will not be viewed as "on-books" for the state or the university because it will be on the books for the City of Murray. He said he did not think this project would affect the state's bond rating.

Senator Leeper asked if the recent action taken by Standard & Poor to lower the state's bond rating would increase the cost of this project. Mr. Mullis said this issue is based on credit from Murray as the issuer; it is a general obligation of the City of Murray. He said he did not anticipate that the state's lowered bond rating would have a negative effect on this issue. In addition, he said the use of insurance, which is contemplated, will mask any effect.

Senator Buford asked if this funding plan will increase the university's debt obligations. Dr. Alexander said it would not increase the university's debt obligation; the city will take sole responsibility for the debt.

Senator Leeper asked if a Memorandum of Agreement has been prepared with the City of Murray. Dr. Alexander said there has been no formal agreement with the City of Murray. He said he appeared before the City Council last week to present an overview of the proposal, and stated that a Memorandum of Agreement would be drafted. He said the City Council voted unanimously to support the bond issue. The formal bond ordinance will be submitted to the City Council in the coming weeks.

In response to another question from Senator Leeper, Jace Rabe, Murray State University Student Government President, said the students are aware that student fees may have to be increased to pay the debt service. He said they overwhelmingly support any fee adjustments to ensure completion of the wellness center. Senator Jackson added that the current student fees and projections are more than enough to take care of the bond issue, and the university does not anticipate the need for a fee increase.

Senator Jackson made a motion to approve this project financing subject to committee review of the final Memorandum of Agreement in November. The motion was seconded by Senator Leeper.

Representative Wayne asked Senator Jackson to amend his motion to also make the committee's approval contingent on the review and approval of the financing method by the Council on Postsecondary Education (CPE). In response to a comment by Senator Jackson, Mr. Sherron Jackson, CPE Interim Vice President for Finance, said CPE has not approved the proposal, but is scheduled to review it November 4.

Senator Jackson amended his motion to approve the project financing contingent upon the committee reviewing the final MOA at its November committee meeting and subject to CPE's review and approval. The motion was seconded by Senator Leeper and passed by voice vote.

Senator Buford said since the City is financially responsible for the project, the City's taxpayers may also want to use the facility. Dr. Alexander said the facility is being paid for entirely by the students, and there are a lot of legal and other considerations relating to the university possibly competing with the local YMCA or local health clubs.

Dr. Alexander reiterated the economic benefit they believe the project presents to City. He said on the average, students spend \$28 per day. He said they are want to keep the students in Murray so they can spend their money there. They estimate 1,300 students per day using the facility. Right now they estimate they are losing between \$7 and \$12 million per year in economic development opportunities because of students leaving town on the weekends.

Mr. Rabe said the number one student complaint is inadequate facilities for wellness and fitness. He said there is a fitness center on campus, but it is inadequate, and students would much rather go home for the weekends. He said the new center will help with recruitment and in keeping students on campus.

Chairman Haydon said the next agenda item was a report from the University of Kentucky relating to the purchase of scientific equipment to be used by the Center for Applied Energy Research. The equipment is a robotics station for liquid handling,

purchased with National Science Foundation funds at a cost of \$209,460. Chairman Haydon said such purchases are to be reported, but no further action is required.

Chairman Haydon said next on the agenda was a lease modification report by the Finance and Administration Cabinet. The Cabinet reported modification of a Franklin County lease by the Department of Libraries and Archives (PR-3388) for additional records storage space. The cost of the modification is \$45,128, and the annual cost of the lease is \$157,948. Chairman Haydon said since the modification is below \$50,000, no further action is required.

Ms. Collins next reported a lease renewal report for the Unified Prosecutorial System, Commonwealth Attorney's Office (PR-2591) in Jefferson County. Under the request, the rate will increase from \$12.50 to \$15 per square foot, and the space leased would increase by 623 SF. The annual cost of the lease is \$284,445.

Representative Wayne made a motion to approve the lease renewal. The motion was seconded by Senator Jackson and passed by voice vote.

Chairman Haydon asked Mr. Bill Hintze and Armond Russ, Commissioner of the Department for Facilities Management, to present the monthly Finance and Administration Cabinet project report.

Mr. Hintze reported a \$90,000 federally-funded scope increase of a project for the Department of Military Affairs to build a new addition to the warehouse for the Directorate of Logistics office. The initial scope of the project was \$750,000. The scope increase is necessary to award the construction bid. Mr. Hintze said the project was declared an emergency because the state had to affirmatively acknowledge by official action that it would accept the federal funds prior to the end of the federal fiscal year (September 30) and they wanted to take advantage of the low bid. Chairman Haydon said no action was required since the project was deemed an emergency.

Mr. Hintze next reported a \$459,000 unbudgeted federally-funded project for the Department of Military Affairs to construct an Engagement Skills Trainer Building at the Boone National Guard Center. Mr. Hintze said the project started out under the statutory limit of \$400,000, but the project scope was increased from \$245,800 to \$459,000. Since final approval had already been given by the Finance Secretary, the Committee took no action.

Mr. Hintze discussed a \$152,000 scope increase for the Transportation Cabinet's Elizabethtown District Office Building. This project was authorized for road funds of \$3,810,000 by the 2000 General Assembly, and received a scope increase last November of \$59,000 from the Highway Construction Contingency Account. This new scope

increase will be financed with road funds, and will be used to purchase new furniture for the offices.

Representative Wayne made a motion to approve the scope increase. The motion was seconded by Senator Buford and approved by voice vote. The revised project scope is \$4,021,600.

Senator Jackson asked Mr. Hintze to update the committee on the state budget, particularly regarding federal highway funds and how they will affect the road projects. Mr. Hintze said due to the tax amnesty program, the state's collections are up approximately 5% for the year to date; the month of September was up over 6% from last year. He said individual income tax receipts, the largest component of the General Fund and the biggest single indicator of economic activity, are down and there is still reason for serious concern. The consensus forecasting group will convene the first week of November, and the State Budget Director indicated it may be necessary to cut the current fiscal year budget by \$150-\$200 million. Mr. Hintze said they are still hopeful the economy will rebound soon, but it is coming later than predicted. He said the road fund is up by double digits due to increased receipts for the motor fuels taxes and the sales and use tax.

Senator Buford asked if it was likely the education budget will be cut. Mr. Hintze said it would be the Governor's desire and recommendation to spare education, including postsecondary education, as much as possible. However, he said given the magnitude of the shortfalls, the fact the Budget Reserve Trust Fund (BRTF) and other non-General Fund resources have already been exhausted, and rest of state government has already taken five rounds of budget cutbacks in the previous biennium, it is unlikely education will be spared. He noted kindergarten through twelfth grade would be the last area to be cut.

Representative Wayne said the state is not only in a constitutional crisis because there is no budget, but a fiscal crisis as well. Mr. Hintze responded they are on the eve of a fiscal crisis. Representative Wayne said the 2003 General Assembly will need to look at tax reform during the next legislative session.

In response to a question from Senator Jackson, Mr. Hintze said many of the state's programs are federally assisted and it appears Kentucky will see reductions in federal road funds. The road fund is in a very fluid state and is already oversubscribed, meaning there are more projects than money. He said the legislature has put a priority of matching every federal dollar available, and the state maximizes the use of its road funds.

Senator Leeper noted that it is not unusual for the road fund to be overprogrammed, it has been for a long time and will continue to be.

Senator Leeper asked how unusual is it for the state to be at this point in the federal budget cycle and not know what the federal government plans to do. Mr. Hintze said this is not unusual for this to happen, but it does make it more difficult. A reduction in federal funds would be a blow to the state.

Chairman Haydon said rural Kentucky is going to die if the infrastructure is not improved, because there is not enough money to build the linkages needed for economic development. He said for the safety of the motoring public, the highways should be as safe as possible.

Chairman Haydon then called on Glenn Mitchell, Deputy Finance Secretary, to discuss the closeout of capital construction project accounts. Mr. Mitchell said they have worked with LRC staff and several agencies to create a new quarterly report identifying projects remaining open 13 months after occupancy. Projects identified this quarter that remain open beyond the 13 month closing date with significant funds remaining include: Kentucky State Police Law Information Network project; the Jefferson Davis Monument Repair project; and the emergency generator replacement for the Glasgow State Nursing Facility. Mr. Mitchell said there were errors on the first two projects. Only parts of the Kentucky State Police Law Information Network project and the Jefferson Davis Monument Repair project have been completed, not the entire projects. He said the emergency generator replacement project at the Glasgow State Nursing Facility remains open because the state is negotiating with the architects/engineers regarding some design flaws.

Chairman Haydon said the next agenda item was the bond activity report from the Office of Financial Management. Ms. Collins reported four projects proposed for Kentucky Infrastructure Authority (KIA) assistance: a Fund A loan in the amount of \$10,274,069 for the City of London to rehabilitate and upgrade the wastewater treatment plant; a Fund C loan in the amount of \$4,160,000 for the City of Nicholasville to acquire the Spears Water Company; a Fund F loan in the amount of \$928,000 for the Bracken County Water District to replace water lines and construct a water storage tank; a Fund F loan in the amount of \$4,000,000 for Bowling Green Municipal Utilities to allow the utility company to increase the capacity of its water plant; and a Fund F loan in the amount of \$252,130 for the Greater Fleming County Regional Water Commission to complete land acquisition for a well field.

Senator Jackson made a motion to approve the new KIA projects. The motion was seconded, and approved by voice vote.

Chairman Haydon said there were nine new 2020 Account/Fund B Grants: Greater Fleming County Regional Water Commission - Waterline extension; Big Sandy Water District - Waterline extension; Mt. Sterling Water and Sewer System - Pump station upgrade; Western Pulaski Water District - Water system improvements; City of Mount

Vernon - Waterline extension; Shelbyville Water and Sewer Commission - Waterline extension; Bowling Green Municipal Utilities - Pump upgrades; City of Midway - Water storage tank; and Louisa Water District - Water system improvements. The committee approved these projects in January, and no further action was required.

Chairman Haydon called on Don Mullis, Executive Director, Office of Financial Management, to discuss the agency's bond issue reports. Mr. Mullis presented one new bond issue: State Property and Buildings Commission Revenue Refunding Bonds, Project No. 77 in the amount of \$292,302,822. The proceeds will be used to refund outstanding bonds.

Senator Jackson made a motion to approve the new bond issue. The motion was seconded by Senator Buford and approved by voice vote.

Mr. Mullis then reported a follow-up report for Western Kentucky University Consolidated Educational Buildings Refunding Revenue Bonds, Series N, dated September 1, 2002 for \$6,110,000. He reported the results of the competitive sale were very good. The true interest cost was very low at 2.979%. Chairman Haydon said this project was approved at an earlier committee meeting, and no action was required.

Mr. Mullis reported 17 refunding bond issues with School Facilities Construction Commission (SFCC) debt service participation: Bath County, Bullitt County, Caldwell County, Campbell County, Christian County, Covington Independent (Kenton Co.), Crittenden County, Estill County, Greenup County (2), Jefferson County, Johnson County, Logan County, Muhlenberg County, Paintsville Independent (Johnson Co.), Simpson County, and Todd County.

Senator Buford made a motion to approve the new bond issues. The motion was seconded by Representative Wayne and passed by voice vote.

Chairman Haydon said there were seven locally-funded school bond issues submitted to the committee for review this month: Corbin Independent (Whitley Co.), East Bernstadt Independent (2) (Laurel Co.), Fayette County, Marshall County, McCracken County, and Southgate Independent (Campbell Co.). He said all disclosure information has been filed, and no further action on the bond issues is required.

Senator Jackson said he and Senator Leeper appreciated the committee holding the meeting in Murray this month. Chairman Haydon said the committee's next meeting is scheduled for November 19 at 1:00 p.m. in Room 129 of the Capitol Annex.

With there being no further business, Senator Buford made a motion to adjourn the meeting. The motion was seconded and passed by voice vote. The meeting adjourned at 11:00 CDT, and was followed by a tour of the Murray campus.